



OECD International Academy for Tax and Financial Crime Investigation

Managing Financial Investigations



CORRESPONDENT BANKING – FOLLOW THE MONEY

HOW GLOBAL PAYMENTS FLOW, EVIDENCE COLLECTION & BANK COLLABORATION

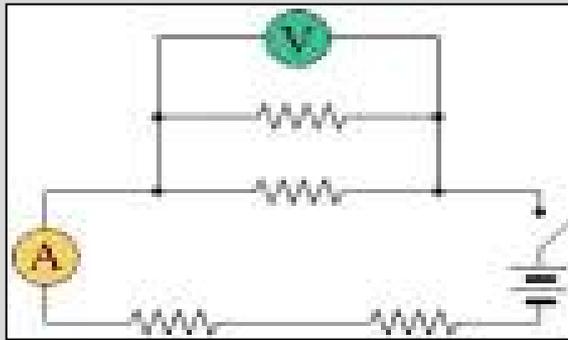
Douglas Sloan
October 2022



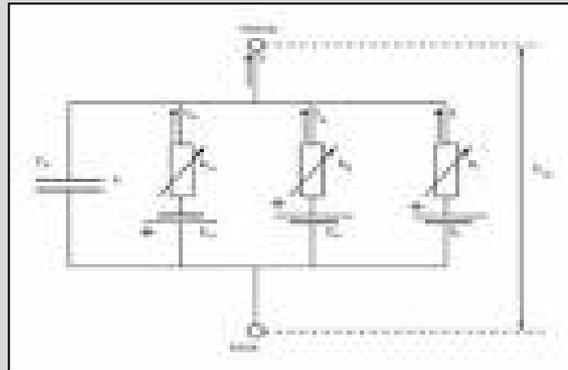
Discussion Topics

- Correspondent Banking - - Cross border payments (e.g. SWIFT MT103/MT202cov) explained.
- Common Money Laundering Techniques
- Law Enforcement & Bank Collaboration

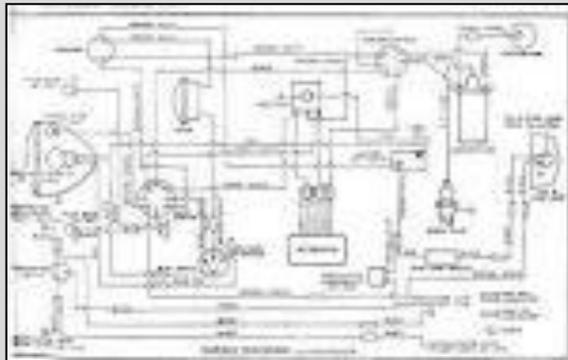
Circuit Diagrams as Wire Transfer Analogy



Simple



Standard



Complex





Take the A Train

Your
Departure
Address



Station
Departure



Second
Station.
Transfer
Option



Station
Arrival



Your Arrival
Address





Basic Wire Transfer

Originator

Originating
Bank

Intermediary
Bank

Beneficiary
Bank

Beneficiary





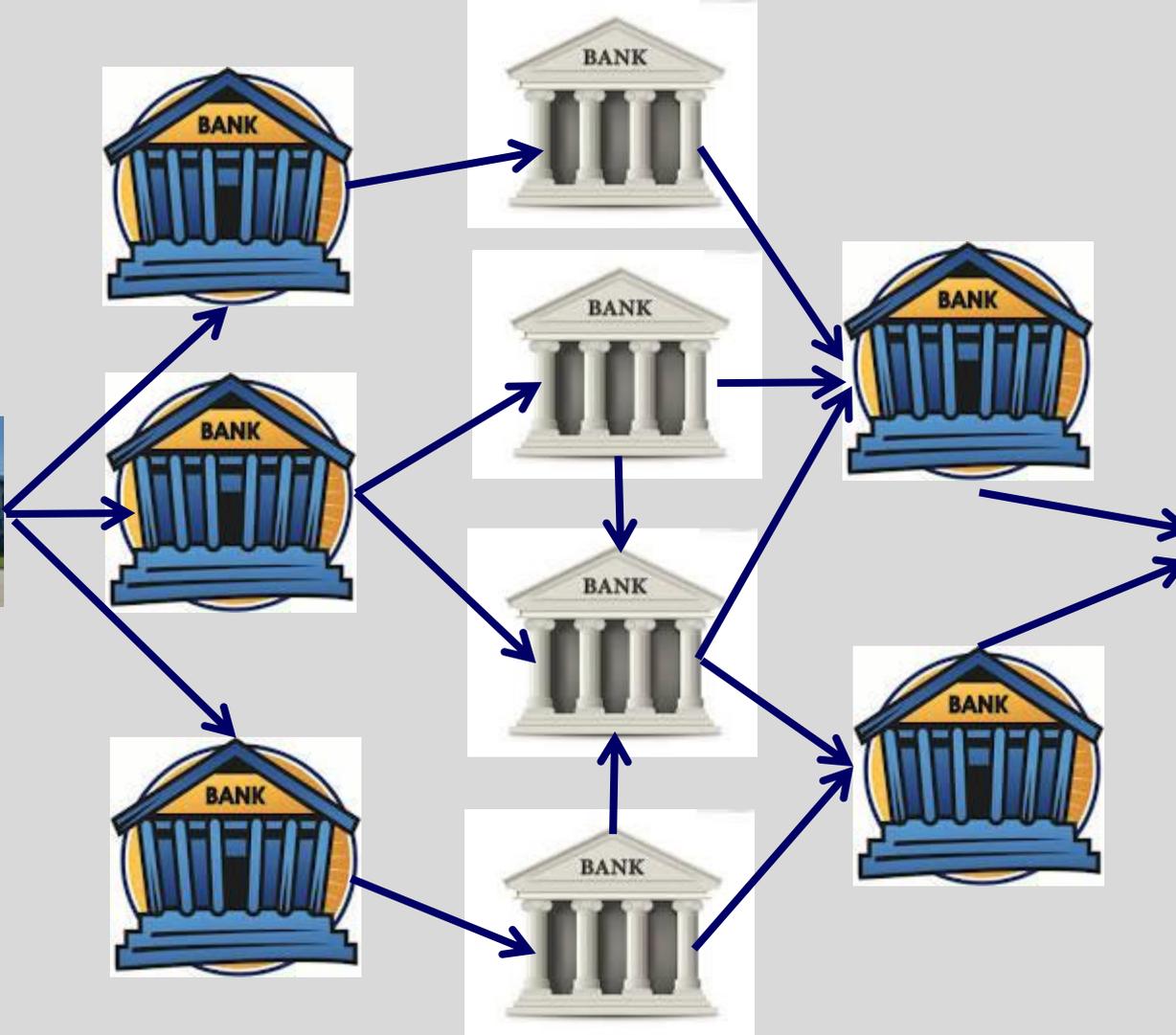
Basic Wire Transfer

Multiple Intermediaries



Basic Wire Transfer

Multiple Institutions



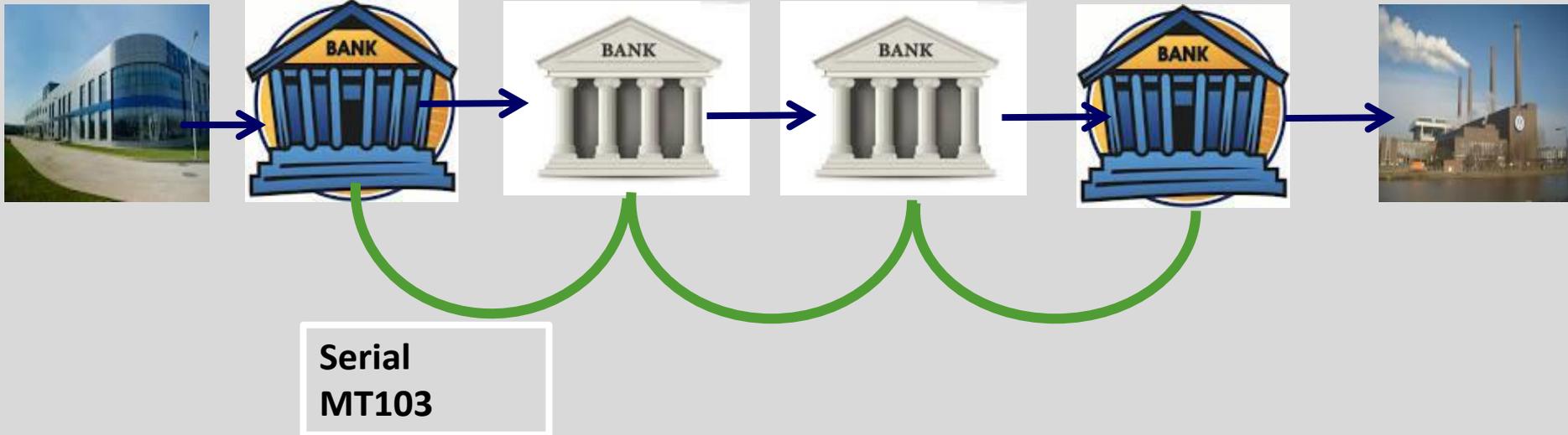


Complex Wire Transfer



THE BASIC SWIFT PAYMENT MESSAGE TYPES EXPLAINED

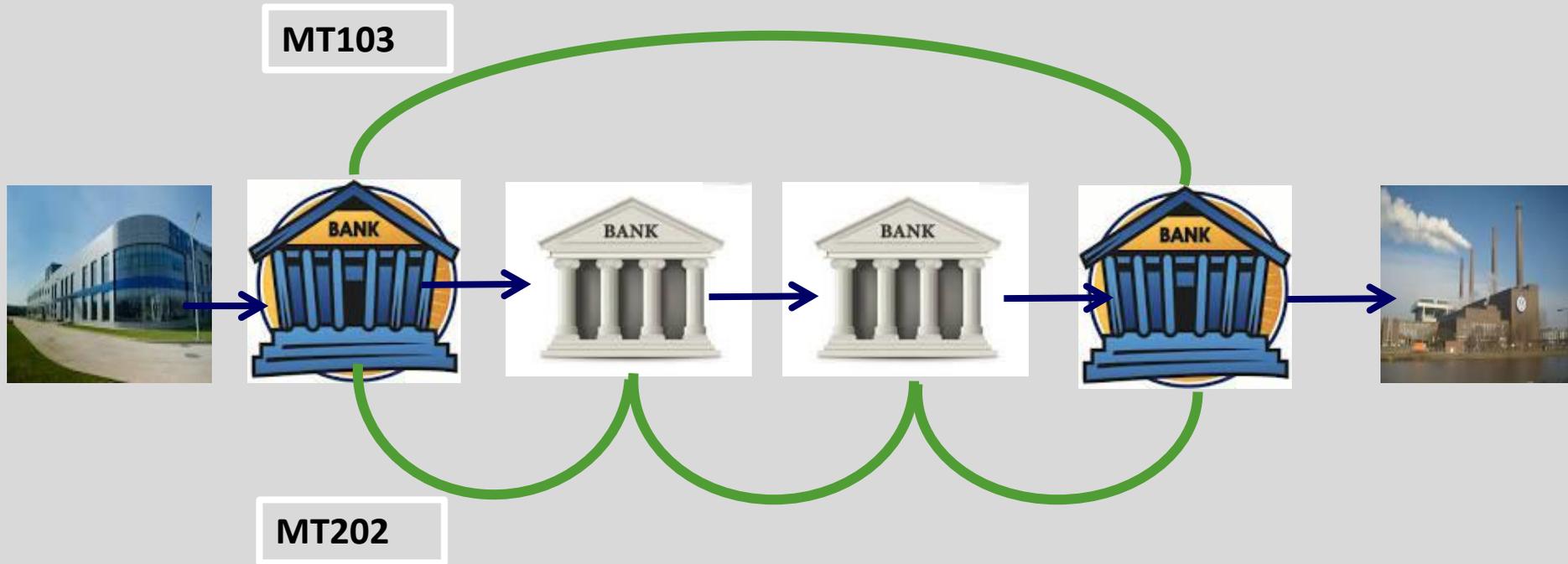
Basic Wire Transfer Serial MT103



Serial MT103: All the Details, All the Value, Lower Risks, Slower

Basic Wire Transfer

MT103 & MT202 (one payment in two messages)



MT103: All the Details and Very Fast Communication b/w Org Bank and Bene Bank; But no value.

MT202: Very few details; slow; but has the real value.

Basic Wire Transfer MT103 & MT202Cov

MT103



MT202co
v

MT103: All the Details and Very Fast Communication b/w Org Bank and Bene Bank; But no value.

MT202Cov: All the Details; slow; but has the real value; less risks.

EXAMINING THE WIRE

Train Ticket



HAPPY RAILS TRANSPORTATION

Reservation Number: XN45BT39283

Reservation Date: August 31, 2020

Fare: \$237.89

Class: Economy

Date: September 16, 2020

Passenger: Douglas Sloan

Passenger Number: A12345

Departure: B&O Station. Akron, Ohio

Train: 3478 Midnight Express

Destination: Union Station. Harpers Ferry, WV

Transfers: Penn Station, Newark, NJ

Train: 2648 Regional InterCity



Contents of a SWIFT MT103/202Cov

- Date
- Amount
- Originator
- Originator Address
- Originator Bank and BIC
- Beneficiary Bank and BIC
- Beneficiary
- Beneficiary Address (Optional)
- References/Memo Field (Optional)

Standard SWIFT MT103/MT202Cov [appearances may vary]



TXN #: 564794047494
Transaction Date Date: August 31, 2020
Transaction Amount: \$12,237.89
ORG: Bob's Boats
ORG Account #: 009-87-68574
ORG Address: 123 Sesame Street, Paris, France
ORG Bank: HSBC Paris
ORG Bank SWIFT #CCFRFRPP
Intermediate Bank: Bank of America
Bene Bank: Deutsche Bank Hamburg
Bene Bank SWIFT #: DEUTDEHH
Beneficiary: Al Capone
Bene Account #: RT783674842
Bene Address: 64-16 Talbot Street, Seoul, Korea
Memo: Payment for contract number 34453

The SWIFT Code or BIC Code is 8-11 characters including: 4 letters for the bank; 2 letters for the country; two letters or numbers for location. An additional 3 digits is optional for the primary office.



Analyzing a series of payments over a given time period is crucial for understanding the activities of your target/suspect and building on the cope of your investigation.

TXN Date	Base Amount	Originator Name	Originator Account ID	Originator Address Street	Originator Address City	Originator Country Code	Originator's Bank Name	Beneficiary Name	Beneficiary Account ID	Beneficiary's Bank Name	Bank to Bank Instructions
RXN_EXCTN_DT	RXN_BASE_AM	SCND_ORIG_NM	SCND_ORIG	SCND_ORIG	SCND_ORIG	ORIG_ADDR_C	ORIG_NM	SCND_BENE	SCND_BENEF	BENEF_NM	BANK_TO_BANK
15-Jun-07	\$29,973.02	Chester Chan	12345	Suite 4 Chen	BEIJING	CN	BANK OF CHINA	Bad Guy	74310753794	BANK INDONESIA	FOR LIVING COST
29-Oct-10	\$100,950.00	Desert Heat	21296-00	PO Box 89	SANAA	YE	UNITED ARAB BANK	Bad Guy	1001565223	COOPERATIVE BANK	Consulting Fee
18-May-09	\$10,000.00	Bad Guy	ad67898	7th Avenue,	LAGOS	NG	ECOBANK NIGERIA	NewCo Ltd	sdrea	JPMORGAN CHASE	Invoice 23423425
1-Sep-10	\$69,001.94	Bad Guy	12345678	7th Avenue,	SHARJAH	AE	UNITED ARAB BANK	Bobs Boats	HY98036	UBS BANK	Electronic Goods
1-Oct-10	\$100,950.00	Bad Guy	876543456	7th Avenue,	SHARJAH	AE	UNITED ARAB BANK	Bobs Boats	HY98036	UBS BANK	Trade Goods
30-Aug-10	\$1,400,000.00	DW82902652543	Bad Guy	6 Maple Ave	CALGARY	CA	TD BANK	Bobs Boats	LB20005600	BANK AUDI S.A.L	Investments
30-Jan-13	\$40,000.00	Muhammad Ali	678946	21 Safari Wa	KANO	NG	FIDELITY BANK	ABC Corp	053-05533	HSBC HONG KONG	B/O Jessie James



Software Assistance Please...

MS Excel and MS Access are good but basic tools to use in analyzing payment data for criminal activity.

However, they can be limited. There are a variety of free and expensive software solutions, some more user-friendly than others. Common examples include:

- Python (and Python notebook: Anaconda)
- Knime
- Neo4J
- ACL and Arbutus
- Many others...

If working in the cloud or software is through provider, make sure you have complied with proper security and confidentiality protocols.

Criminal Funds Flow Case 1. Origination step



Criminal Funds Flow Case 1. Intermediate step



Criminal Funds Flow Case 1. Settlement step



Criminal Funds Flow Case 2. Origination step





Common Money Laundering Techniques— Games People (Badguys) Play

- Spoke and Wheel
- PSPs & MSBs
- Facilitators and Anonymity (Lawyers, accountants, back office service providers)
- Let me do you a favor (one entity sends for another)
- Switch Entities
- Multiple firms with accounts at same bank
- Switch currencies on the wire
- Mexican Diversion
- Virtual currencies
- Hawala
- Loans & Taxes
- Other Schemes/Cases



Spoke and Wheel



Sourcer A



Sourcer B



Collector



Originating Bank

Send Wire



Intermediary Bank



Sourcer C



PAYMENT SERVICE PROVIDERS & MONEY SERVICE BUSINESSES



Originator
PSP/MSB

Originating
Bank

Intermediary
Bank

Beneficiary
Bank

Beneficiary



True
Originator
Instructs
PSP/MSB

Note: True Originator could also be true beneficiary or both!



Facilitators and Anonymity (Lawyers, accountants, back office service providers)

Originator
Facilitator

Originating
Bank

Intermediary
Bank

Beneficiary
Bank

Beneficiary



True
Originator
Instructs
Facilitator

Note: True Originator could also be true beneficiary or both!



LET ME DO YOU A FAVOR (ONE ENTITY SENDS FOR ANOTHER)

Originator
On behalf of
Another

Originating
Bank

Intermediary
Bank

Beneficiary
Bank

Beneficiary



True Originator

Asks friendly entity to send pymt on its behalf.
They exchange value between themselves locally.

Switch Entities.... Overlap the lifespan of a shell entity, transfer the assets, and continue the movement of funds.



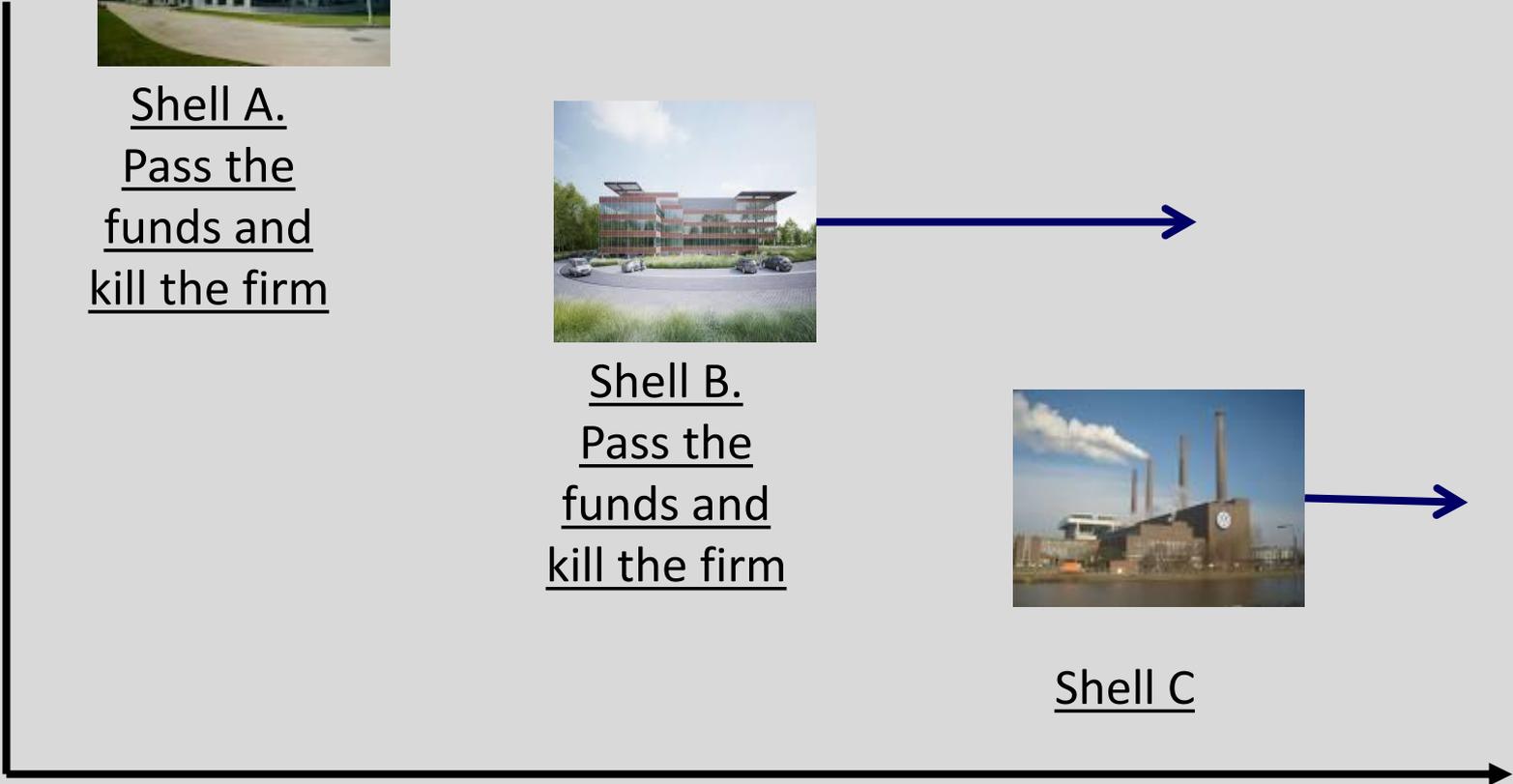
Shell A.
Pass the
funds and
kill the firm



Shell B.
Pass the
funds and
kill the firm

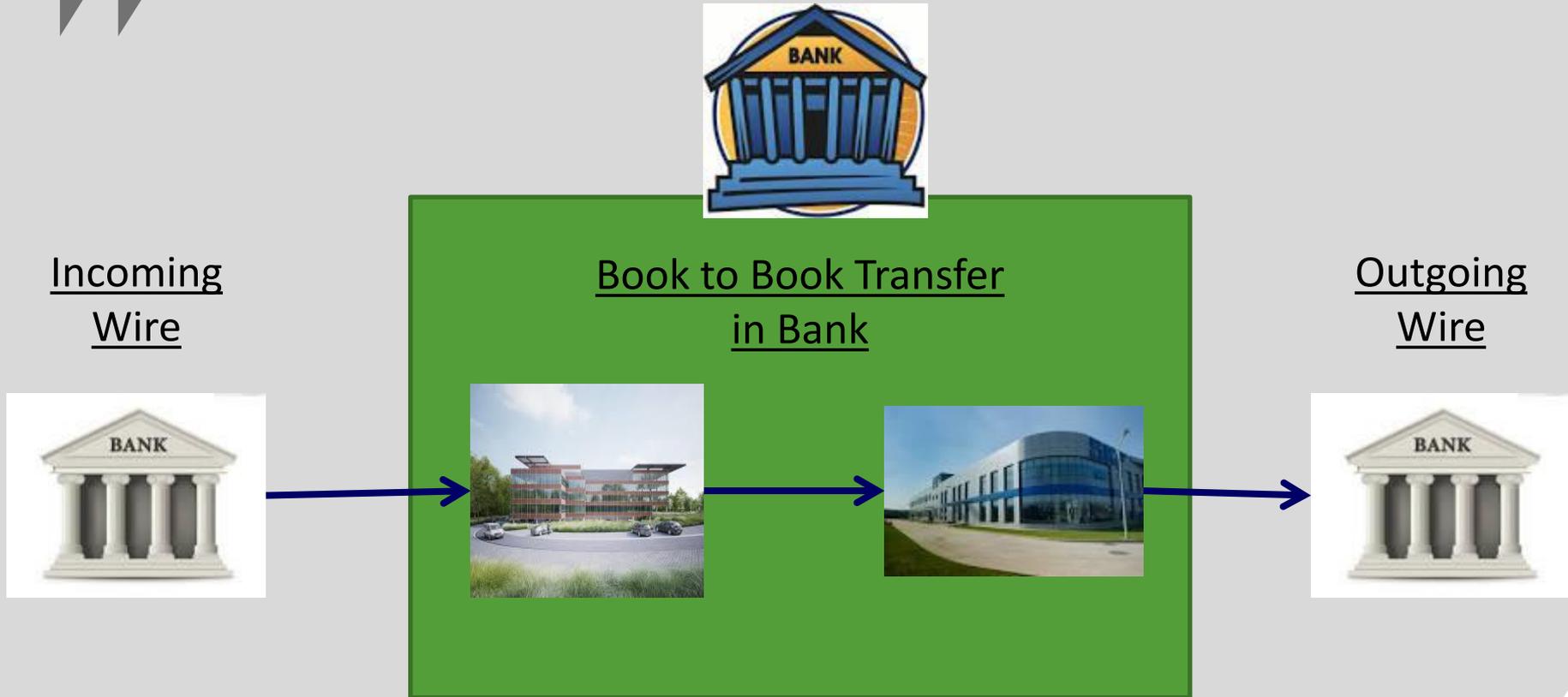


Shell C





Multiple firms with accounts at same bank – Separate the illegal flow using two payments switched inside a bank with a book-to-book transfer.





SWITCH CURRENCIES ON THE WIRE

Originator
Swiss Franc
Pymt

Originating
Bank
Swiss Franc
Pymt

Intermediary
Bank
USD Pymt

Beneficiary
Bank
USD Pymt

Beneficiary
USD Pymt



First Intermed Bank

From original instructions, converts
Swiss Franc Pymt to USD Pymt



Mexican Diversion

Originator

Originating
Bank

Intermediary
Bank

Beneficiary
Bank (MX)



Bene Bank
Redirects based on
customer advice

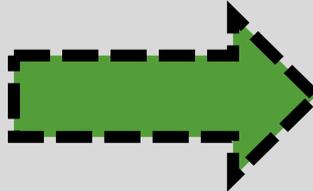


Beneficiary

Third Party



VIRTUAL CURRENCY



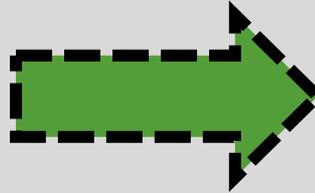
Criminal in country A purchases Bitcoin in local currency.
Anonymously sends or “Sells” Bitcoin to criminal counterpart on other part of world.

Criminal counterpart in country B receives Bitcoin. Can hold or “sell” in currency of choice, and use or wire out as desired.

NOTE: Any wires can be conducted locally with complete break in transaction activity from one party to another; from one location to another. Many ways to structure the virtual currency exchange of value.



HAWALA



Criminal in country A
transact with Hawala
Broker. Hawala broker
receives or directs
placement of
funds/cash, and
“communicates” with
counterparty or with
another Hawala broker.

Hawala Broker receives
(coded) instructions
from first Hawala Broker,
and provides funds to
the criminal beneficiary.

Both Hawala Brokers
“settle” their own
“ledgers.”

LOANS, TAXES & TRANSFER PRICING

Parent Holding
Company



Affiliate A



Affiliate B



Loans:

- In lieu of dividends, loans upstream to parent can reduce tax liabilities.
- Loans from parent to subsidiary (or vice versa) or from affiliate to affiliate can (but might not) violate transfer pricing laws and regulations; capital controls; and tax evasion; not counting other criminal laws and violations.
- Many offshore “shell jurisdictions” as well as jurisdictions with favorable intercompany transaction laws, permit certain favorable treatment allowing the use of loans (and other transactions) at non-arm’s length.



Other Schemes/Cases

- The inside job
- Strawmen
- Mirror Trading
- Flips
- Pump & Dump
- L/C Invoicing and Amendments



Law Enforcement & Bank Collaboration

- Who to Serve & with What (MLATs; Egmont; Interpol; Subpoenas
 - Which Government? (what info do you want?)
 - Who in the US? (Fed, CHiPs, Money Center Banks)
- Each bank is different
- Serving production orders (subpoenas) and bank SAR filing
- Using bank connections to obtain information overseas (pros and cons)
- Asset Seizure Orders
- Working in collaboration with overseas law enforcement and banks
- “Keep Open” letters
- Supporting undercover operations (e.g. stings)
- Law Enforcement working together



Direct and Indirect Banking Relationships

- Correspondent banks process transactions for other banks who have persons and entities as their customers. They often have greater visibility of payment activity, amounts, volumes, counterparties and countries (“breadth”).
- Banks with direct customer relationships to the persons and entities have greater profile information about who their customers are (“depth”).



Writing effective Production Orders

- Just because a lawyer can write a good subpoena, doesn't mean she/he knows the financial system.
- Just because a banker knows his business, doesn't mean he is going to understand the subpoena.
 - Make sure you know what you want before you write the subpoena.
 - Then write it in a manner that the banker will understand.
 - Make sure it is specific and well structured with little means for interpretation (or escape from compliance)



Practical Advantages and Disadvantages of Production Orders

- Timing is critical.
- Source of information and collaboration has demonstrated numerous instances of success.
- Type of information exchanged, including efficiency and effectiveness absent legal parameters, protocols, dissemination of sensitive information, decision-making considerations.
- The retreat from collaboration increases the need for production orders.
- Inability to use SAR information in courts



What to add in your production order and how to phrase it (from the banker's perspective)....

- Names and name variations
- Separate names from account numbers
- Date ranges
- Ask for completed due diligence files (current and past)
- Ask for all relevant banking information, including products and services offered (current and past), signature cards, etc.
- Ask for all current and previous owners; control persons, nominees, administrators, lawyers.
- Ask for risk ratings, approvals and sign offs
- If account was closed, when was it closed, how proceeds were distributed, and to what other entity assets were transferred to.



What to add in your production order and how to phrase it (from the banker's perspective)....

- Ask for any copies of contracts, invoices, and other agreements between the target and any other person or entity.
- Ask for names of all current and previous relationship managers and their previous contact persons.
- Ask for emails and telephone records related to the names, name variations, and account numbers
- Copies of all monitoring alerts, internal investigations, dispositions, internal reports, etc.
- Copies of all internal reports, management information reports, memos, notes, and names associated and involved in all such meetings and communication.
- Any and all communication pertaining to the names, name variations, account numbers, and persons associated with such communication.



Asset Seizures

- Who to serve
- Who and how to hit (how much, how long)
- How to phrase
- Other considerations (active trading; margins)



Asset Seizure Orders – Considerations and Common Problems

Many of the elements of what to seize in the asset seizure order are similar to the phrasing of what is required in a production order. But there are additional challenges as well, including but not limited to:

- Who to Serve Asset Seizure Orders
- Types of Seizures (e.g. to Seize or Freeze)
- Timing is critical – Seize the assets before they are moved out of accounts and out of reach. One partial solution: serve seizure orders by surprise, effective immediately and upon all financial institutions at the same time.
- Common problem 1. What if you are not sure?
- Common problem 2. Which assets to seize if there is a limit and the assets held exceed the limit.
- Common problem 3. Solution to be determined: What to do with securities held on margin, accounts actively managed by owner and/or financial institution?



What to add in your seizure order and how to phrase it (from the banker's perspective)....

- Names and name variations
- Separate names from account numbers
- “You are directed to seize any and all accounts owned or controlled directly or indirectly or for the direct or indirect benefit of the following name or name variations, or other names known by your institution to be linked or reference to the same person or persons, and the following account numbers:” (insert names, name variations, etc, separately)
- Sometimes assets seized are open ended and sometimes there are parameters to the extent that assets must be seized, so please indicate. In cases of the latter, indicate time period and/or up to a maximum value if so ordered, for example, “ From the date of this order and continuing through the next 10 business days, you are instructed to seize all assets described above up to an amount of \$50 million.”
- Indicate that questions pertaining to assets to be seized, amounts, etc should be directed to [Name and title and contact info].



If you are interested in exploring the possibilities for collaboration and strengthening your abilities...

Douglas A. Sloan
President
Catamount Huntsman

DASloan@outlook.com

+1-917-565-7695